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ENTERPRISE FOR THE AMERICAS INITIATIVE (EAI)

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CORE COURSE

INTRODUCTION: The 1980's in Latin America has often been called the "lost decade." It was a decade which mixed political success (the restoration of democratic governments in most of the hemisphere) with economic failure, most nobably the debt crisis. As a result, the new democratic governments, so fulsomely praised in Washington and for which the Reagan and Bush administrations often took credit, stand imperiled. Closer to home, the economic problems of Latin America costs the U.S. markets, trade and investment opportunities.

Although it gradually became clear during the decade that more was needed, the new democratic leaders made important progress in coping with the multiple crises and wrought profound changes in how Latin America viewed and conducted its economic relations. First, they oversaw a sharp shift in trade and development policy from previous inward-looking policies to greater participation in the global economy. This shift, from the import-substitution policies of the past to a renewed drive to increase exports, was accompanied by growing regionalism.

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This shift was paralleled by renewed regionalism in the U.S. as we responded to perceived shortcomings in the multilateral trading system we had so long supported, perceived threats of new regional trading blocs in Europe and Asia, and frustration over our continuing trade deficit.

We were also driven, in part, by seeing U.S. exports to Latin America decline from 17% of our exports to 13%. (USTR estimated that U.S. exporters lost over \$100 billion during the decade in sales to Latin America which, according to congressional sources, cost the U.S. over one million jobs.) From the other side, the U.S. market was increasingly seen as the key to Latin American economic success as over 40% of its foreign trade was with the U.S. Further, the Latins had seen this trade increase by 10 percentage points in the 1980's with manufacturing leading the way.

Whatever joy this picture brought for the Latin side, however, was more than offset by its debt problems (\$422 billion) and consequent lack of investment and restriction of loans and credits. The U.S., on its side, had to be concerned that it had \$50 billion worth of investments in Latin America, almost two-thirds of all U.S. investments in developing countries.

ENTERPRISE FOR THE AMERICAS INITIATIVE: In an effort to provide help to these new democratic leaders and their governments, President Bush announced the Enterprise for the Americas

Initiative (EAI) on June 27, 1990. In his remarks at the announcement, the President set the parameters for that help, noting that "prosperity in our hemisphere depends on trade, not aid" and that "the future of Latin America lies with free government and free markets." Underlining the limited role of the U.S., the President went on to state that "the primary responsibility for achieving economic growth lies with each individual country. Our challenge in this country is to respond in ways that support the positive changes now taking place in the hemisphere. We must forge a genuine partnership for free market reform." As the Wall Street Journal noted in its initial report on the President's announcement, it offered large goals but made small financial commitments by the U.S. because of its own budget deficit.

According to numerous sources, the President's initiative was spurred by conversations he had with several Latin American presidents first at the Hemispheric Summit in San Jose, Costa Rica in October 1989 and later at the Andean Drug Summit in Cartagena, Colombia in February 1990. Reportedly, these presidents told Bush that more than the traditional aid, they wanted the opportunity to sell their products in the world economy, including the U.S. On the way back from Cartagena, the President told his advisers that we owed our neighbors a bold response and appointed Secretary of the Treasury Brady to lead a review of U.S. economic policy toward Latin America. Despite this preparation, however, the EAI was announced four months

later with little fanfare.

From the beginning the EAI rested on three pillars through which the U.S. could support economic reform and sustained growth in Latin America. The first was to seek to expand trade by working with the countries of the region through the Uruguay Round of the GATT and by entering into free trade agreements with individual countries or regional groupings with the ultimate goal of creating a hemisphere-wide free trade system. The second was to seek to promote investment in the region and to help countries compete for capital by reforming traditional policies that tended to discourage private investment. The third was to build on such previous efforts as the Baker and Brady Plans to ease the debt burden on Latin America and to increase incentives for reform by offering additional debt relief measures.

An additional feature of the Bush proposal was its linking of debt relief to environmental measures. As a part of the framework agreements with each country, the President promised to seek environmental agreements which would allow interest payments on new obligations resulting from debt reduction agreements to be made in local currencies. These interest payments are to go to an environmental fund to support environmental projects in the countries making the payments. The fund will be managed by an environmental commission of members from the USG, the debtor government and non-governmental environmental groups from that country.

Initially, the EAI was only a set of lofty goals with limited specific content. In the ensuing months this led to a scramble in Washington as political and bureaucratic leaders struggled to fill in the broad, empty spaces in the President's proposal. In Latin America, leaders also scrambled, first to understand exactly what was being proposed, then to express enthusiasm for a major new U.S. initiative to address their problems without necessarily committing themselves and, finally, to come up with what at least appeared to be forthcoming counter-proposals.

CONGRESS AND THE EAI: By September 4, when President Bush sent a legislative proposal to the Congress, some of the blanks in the EAI had begun to be filled in. The President proposed that the debt pillar of EAI rest on reduction of: (1) PL-480 (agricultural aid) concessional debt; (2) other concessional debt (AID); and (3) Export-Import Bank and Commodity Credit Corporation obligations. Eligibility for such reductions of official USG debt (only 3% of total debt) would be determined by the Secretary of the Treasury and an interagency committee and would be based upon approved programs between the country and the IMF, the World Bank and/or the Interamerican Development Bank (IDB). The negotiation of satisfactory financing programs with commercial banks, which hold the overwhelming majority of Latin America's external debt, might also meet the criteria.

For the investment pillar, the President sought congressional approval for \$100 million per year for five years to establish a multilateral fund at the IDB. The Secretary of the Treasury was also to seek contributions from other countries (to date Japan has pledged \$100 million per year for five years and several European countries have cautiously indicated they might combine to pledge another \$100 million--Latin American countries have also pledged token amounts in order to have a part in disbursement decisions). Disbursements from the \$300 million per year fund would be used to encourage market-oriented investment policy initiatives and reforms and to finance technical assistance for privatization efforts, business infrastructure and worker training and educational programs.

The trade pillar of the EAI would rest on the continued U.S. commitment to the multilateral trading system of the GATT, augmented by the successful negotiation of the North American Free Trade Agreement with Mexico (NAFTA). These would be strengthened by the negotiation of framework agreements with individual or regionally-grouped Latin American countries, which could later be turned into full-fledged trade agreements.

Immersed in budgetary crises, election year politics, concerns over the economic and employment impact of the proposals, and in the absence of a Cold War threat, the U.S. Congress has been slow to respond to the President's legislative proposals which asked it to approve \$310 million for debt

reduction and \$100 million for the IDB in FY-92. By October 1990, it had approved reductions in concessional debts under PL-480 (funding came only in March 1991) and upheld the fast track negotiating authority for the NAFTA, but that was all.

Subsequent attempts to increase funding or extend it to FY-93 have all bogged down in executive-congressional struggles over the Foreign Aid Bill. Since that time, further legislative proposals have languished and progress to date has been largely from the Latin American countries and the U.S. executive.

PROGRESS TO DATE: After a somewhat confused initial response, in which they alternated between cautious enthusiasm and complaints about the lack of money budgeted for the plan and its lack of specificity, Latin American leaders began to respond to the open-ended nature of the President's proposals. Within five weeks of the EAI's announcement, the presidents of Argentina, Brazil, Paraguay and Uruguay met and cut their previously announced timetable for free trade between the four Mercosul countries from 1999 to 1995. By the end of 1991, all but Cuba, Haiti and Surinam had signed either bilateral or multilateral framework agreements.

By late 1991, trade and investment framework agreements establishing mechanisms for resolving trade disputes and promising to lower trade barriers were concluded with 29 countries, most of them grouped into such regional organizations such as Mercosul and Caricom (13 countries of the Caribbean

Community). Interestingly, these agreements reflect one of the divisions between the Bush administration and Latin American leaders, the U.S. preference for bilateral framework agreements over multilateral agreements.

In the investment area, the IDB has sent diagnostic teams to half a dozen countries. Despite these preparations and good intentions, perhaps best summed up in the somewhat pro-forma endorsement of the EAI by the OASGA meeting in Santiago, Chile in June 1991, the only tangible achievements have been the signing of agreements with Chile, Bolivia and Jamaica. The IDB committed \$150 million in an investment sector loan to Chile on the first anniversary of the EAI. As part of the same package, the U.S. and Chile agreed to a 40% reduction in Chile's PL-480 debt (\$44 to \$23 million). Also, in mid-1991, the U.S. and Bolivia agreed to an 80% reduction in Bolivia's \$38 million PL-480 debt (down to \$7.7 million). In late 1991, a \$216.7 million package was approved for Jamaica. All three countries also agreed to fund environmental programs as part of their debt reduction agreements. The reality of these three agreements, however, must be placed against the context of \$1.9 billion in PL-480 debt for all of Latin America plus \$5.1 billion in concessional loans from AID, and over \$400 billion in private commercial bank debt.

In contrast to the bleakness of the official progress, unofficial progress is mildly encouraging. The EAI set out to build on and accelerate market-based reforms already underway in

Latin America, by opening trade, enhancing growth and encouraging investment. In 1991, ECLA estimated Latin American growth at 2.4%, not stupendous but noteworthy after a decade of decline. Even more encouraging for the long term, the OECD estimated a positive financial flow of about \$10 billion in new capital into Latin America in 1991, the first inflow since 1983. Finally, U.S. exports to Latin America have risen 74% since 1986, with much of the increase coming in the last two years.

CONCLUSION: On paper, President Bush has made the most far-reaching proposal for Latin America since at least the Alliance for Progress in the early 1960's. He has taken advantage of a unique historical moment in U.S.-Latin American relations in which a hemispheric consensus on political and economic principles exists. Seizing this moment, he has set forth his vision of a stable, democratic, free market, free trade region stretching from Alaska to Tierra del Fuego.

To fulfill this bold vision, however, the President first offered only vague and general proposals and later niggardly amounts of money. To cover up these shortcomings, administration spokesmen have had to resort to dubious claims which have lumped together gains made earlier under the Baker and Brady Plans, previous commercial bank renegotiations and a few small environmental fund gains and to claim them all as part of the success of the EAI. They have also had to trumpet loudly the 29 framework agreements, which are little more than vague promises

of future behavior on the part of all concerned. Finally, they have conveniently overlooked the fact that the three IDB agreements negotiated to date, with Chile, Bolivia and Jamaica, were all made with countries which underwent draconian economic reform programs on their own well before the announcement of the EAI.

Predictably, Latin American leaders began by expressing disappointment over the general nature of the proposal, the lack of funding and the limitation of debt relief to public and not private commercial debt. As a result, Latin American governments were slow to pick up on the proposals and waited for the U.S. to translate the ideas into concrete proposals and actions. Gradually, however, Latin American enthusiasm grew as the U.S. was perceived to be offering a partnership rather than another U.S. intervention, an American trade bloc to balance Europe '92 and the threatened Asian bloc, a means of attracting capital rather than the much-feared diversion of capital to Eastern Europe and a positive plan rather than just the tradition anti-drug, anti-communist message of the past.

Growing Latin American enthusiasm and the lack of precision in the EAI has led Latin leaders to broaden their own proposals. Ironically, the fact that the EAI proposal raises more questions than answers, a challenge rather than a U.S.-imposed solution, may give it more long-term impact than a less provocative proposal. This may lead to increased engagement by Latin

leaders, more important than ever since the end of the Cold War raises the possibility of decreasing U.S. interest in and support for Latin America in the years immediately ahead.

In this sense, the EAI has encouraged Latin leaders to speed-up and strengthen the formation of their own sub-regional groups, at least in part because they prefer to negotiate framework agreements with the U.S. on a multilateral rather than a bilateral basis. While the real value of these agreements remains to be seen, with little prospect for serious progress until the NAFTA is completed, at a minimum they should serve as vehicles to expand liberalized trade in the hemisphere, even if full free trade is not achieved. They should also serve to strengthen democracy in the region as the economic cost of political backsliding in the future is likely to rise.

Luigi Einaudi, the U.S. ambassador to the OAS, summed up the situation neatly at the 1991 General Assembly meeting in Santiago. "We're talking about recasting fully economic relations in the hemisphere. A great deal of what we are doing has to do with changing attitudes." What he left unsaid is that U.S. attitudes towards Latin American economic and political problems have to change just as much as Latin attitudes if the EAI is to fulfill its vision.